Whitechurch Securities Ltd
WEALTH MANAGERS

Market Commentary

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Executive Summary

Following a broadly positive yet at times erratic first half of the year, macro data released in July saw investors bet big on interest rate cut expectations. Whether economic or political, there were so many talking points throughout the month – a general softening of inflationary factors in developed markets paving the way for rather bullish flows into risk assets such as small cap equities being one of the key themes where markets were concerned. After an extended period of resilience, weakness in the US labour market and a further tick down in US headline inflation increased the prospects of multiple interest rate cuts from the US Federal Reserve (Fed) – with, at time of writing, up to three cuts anticipated by markets before 2025, with the first expected in September. Whilst developed markets again outperformed their emerging counterparts, it was those more traditionally interest-rate sensitive asset classes that prevailed, with bond and property markets joining the aforementioned small cap equity space as July's winners.

US

July proved to be a volatile month for US equities, with continued scepticism over the valuations of several parts of the market, particularly mega-cap technology names. A.I. poster child, Nvidia, finished the month -5.3% down, despite gaining nearly 13% on the final day of the period. Similar losses for other growth giants such as Microsoft and Meta (Facebook) dragged down US equities' aggregate monthly return to -0.3% (GBP). In contrast, US small cap equities gained +5.8% in the same period, buoyed by the heightened prospect of imminent interest rate cuts. Underpinning these hopes was a decline in CPI from 3.3% to 3.0% and an easing of US employment numbers, despite maintaining its healthy state. After weeks of speculation, confirmation came that President Joe Biden will not be running for another term in November. He will instead be replaced by Vice President Kamala Harris, who will face an arguably invigorated Donald Trump following a recent assassination attempt.

Other Developed Markets

Whilst headline inflation figures elsewhere in developed markets did not experience the same decline as in the US, they all remained comfortably at or at least closer to, long-term target levels. As we have noted several times this year, there was a strong monthly return from the UK, with aggregate equity and small cap equity returns of +3.6% and +4.3% respectively. With inflation remaining at 2% target levels, a first interest cut from the Bank of England is anticipated for later this summer, as well as stronger than expected Q2 GDP figures that all acted as tailwinds. The return to power for the Labour party after a 14-year absence was already largely priced in. A slight uptick in inflation, political uncertainty and slightly weaker economic growth data in mainland Europe saw an aggregate return of +0.1%, despite European smaller companies returning +2.7%. A huge rally in the yen saw Japanese equities return +3.8% for sterling investors during the month, whilst inflation levels remained unchanged.

Asia & Emerging Markets

Asian and emerging markets returned -2.2% and -2.1% respectively, markedly lower than their developed (-0.1%) counterparts. As we have written before, both regions are dominated and therefore often dictated by the performance of Chinese equities, which, still plagued by concerns surrounding their domestic property sector, declined -4.1%. This occurred despite, not for the first time this year,

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the Chinese government introducing a swathe of measures aimed at stimulating economic growth. Elsewhere, there were some positives during the month, such as the continued performance of Indian equities, which returned +1.8%, taking their year-to-date growth to 18%, as well as a stabilisation of sorts for Latin American equities, which have been a major detractor for emerging markets this year. Mexican equities were another notable detractor from emerging markets, which continued their decline in July, equating in a -14% loss since mid-May. Whilst historically, US elections have not dictated emerging market performance per se, the implications for trade relations for both Mexico and China have developed into a significant sub-plot this time around.

Bond Markets

Such is the influence of US mega cap stocks on aggregate global equity returns that, despite some serious gains for developed small cap markets, they underperformed global bonds by -1.3% in July. Fixed income markets were one of the major beneficiaries of the slight change in narrative that multiple interest rate cuts from the Fed before the end of the year are once again a real possibility. Of course, as rates come down, in theory so will bond yields, and thus push prices up. This also broadly lent itself well to longer-dated (more sensitive to changes in interest rates) bonds throughout the month, with the spread between the 2 and 10-year US Treasury yields now at its narrowest level since January, albeit still inverted. That said, there were gains for every major fixed income market, specifically with government bonds finishing the month marginally ahead of their corporate counterparts, and higher quality investment grade ahead of high yield. Regionally, euro government and sterling issues, particularly UK index-linked, were among the relative winners, whilst US Treasuries and emerging market debt were laggards.

Other Asset Classes

Political escalation and conflict in the Middle East persisted throughout July, which despite raising concerns for potential oil supply issues, was not enough to offset the general lack of demand from the likes of China, ultimately resulting in a -5% price decline to just shy of $80 per barrel. The aggregate commodity index was dragged down further by a sharp decline in the natural gas price as well as weakness across most metal markets. Whilst question marks over the amount of manufacturing demand saw mid-single-digit losses for copper and iron ore, precious metals too acted as a detractor, despite marginal gains in the spot price of gold. Conversely, the real estate sector was one of the beneficiaries of the change in sentiment in favour of more interest-rate sensitive sectors. Whilst UK direct property returned +0.6%, listed property (such as Real Estate Investment Trusts) experienced a +4.5% uplift. The month ended with mortgage holders, and investors in general, holding their breath for an eagerly anticipated first rate cut from the Bank of England in four years.

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